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Disciplinary Brief

## **ORDER IN MARKET ECONOMIES**

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The market economy is an example of a human order in civil society which arises from the desire and willingness of economic actors to trade with each other in goods, services, and in factors of production such as the land, labour and capital that are utilised to produce those goods and services. The existence of order in the economy, without any single organising institution or blueprint, is in many ways profoundly surprising and reassuring, given the significance of economic activities for human flourishing, but there is no presumption either that the order is always stable and well-functioning, or that the outcomes are always just. As put by Nigel Biggar:

“The Creator and his creatures—*a fortiori*, his sinful creatures—are not identical and should not be confused. The divinely created order is one thing; human orders are another. The two are not the same and the latter cannot automatically claim the authority of the former. Judged in the light of divine order, any human order might be found morally wanting.”

The notion of order relevant to markets is that they organize a non-chaotic provision of goods and services, and, that this is accomplished by prices providing incentives – giving ‘orders’ – to a range of actors such as consumers and producers. As befits modern liberal democracy (though markets are used extensively elsewhere) the orders come in the form of offers, which introduce a degree of freedom in the response of the agent to the order and their ‘orders.’

### **Essential Features of Markets**

The market economy has two essential features that enable it to function in this manner. The first is private property. Negatively that involves protection by social mores or law that prevents others taking another’s property by force; positively it involves freedom of action (*laissez faire*) in the use and disposition of property, without undue interference from government or other authorities. The second essential feature is the mediation of exchange through markets in which prices play a key role. Reducing undue interference by government is especially valued here, in *Free Market*

Liberalism.

Markets require the existence of a medium of exchange – money. Without it, all economic exchanges would have to be effected by barter over goods and services, which would be immensely cumbersome. [ 1 ] Prices play a key role in markets, not just by facilitating exchange, but also for their information and incentive characteristics. By observing prices for goods and services in markets, the owners of a resource can identify where the returns are most advantageous, and apply the resource accordingly. This is the incentive property of prices. But note too that prices are essentially providing information to the owner, without her having to know all the suppliers or the needs of all those demanding the resource. The same advantages of the market price system are present for the person who is seeking to purchase goods or services.

Without these freely adjusting prices, it would be up to some kind of social planner to resolve the inevitable mismatches between the goods and services produced and those desired in a large complex economy. Market prices fall when there are too many items on offer, removing incentives to produce and providing bargains for consumers to help eliminate the glut. Similarly, market prices rise during a shortage, eliminating it by encouraging production and curbing consumption.

It is doubtful that markets can function without the support of some wider framework of law or social custom. However, their ubiquity across many times and cultures suggests that the legal and customary requirements may not be stringent. The contracts that form the core of market systems need to be enforceable in some way, and suppliers need to tell the truth about their products. This suggests the need for some moral underpinning external to the market system to ensure that it functions effectively with market participants adhering to standards of honesty, truth telling, and fulfilment of obligations. [ 2 ]

## The Morality of Markets

A feature of the market system identified by some proponents is that it is neutral with respect to what is being transacted. In this view it is just a mechanism for meeting the wishes of consumers, and does not concern itself with the actual goods and services. It is flexible with respect to cultural values and trends, but also permits minority interests to be served without asking moral questions. For example, a consumer who has ethical concerns about the sourcing of goods ('under what working conditions was this piece of clothing produced?', 'has this coffee or tea been "fairly traded"?') can choose ethically, while another consumer who does not have those concerns can also find suppliers, possibly more cheaply. The point is that the range of goods and services transacted simply reflects the choices of the consumers. A Christian critique of the market will note this feature, and value the freedom afforded to individuals, but see that its moral worth depends on whether the items traded contribute to human flourishing, as Biggar emphatically states. Markets also exist for intrinsically evil things, like modern-day slaves.

The 'external' role of morality was emphasised by Griffiths (1982, 1984) who distinguished a market economy based on the values of 'Mammon', with one based on the values of faith (and notably the values of the Protestant Reformers). He suggested that the latter would both resolve the concerns about truth telling and integrity in market transactions, and would also counter some of the effects of 'materialism' in *consumption*. But how this change in values is to be brought

about is unclear.

The widespread existence of market systems historically and geographically raises the question of how these systems arise, given that they have not been mandated by some organising authority. The liberal tradition identifies two prerequisites for markets to evolve: individual freedom and individual property rights. Individuals with property rights enter into exchanges involving the goods, resources, and capacities with which they are endowed, because they perceive economic benefits accruing to themselves from those exchanges. Hayek uses the word 'catallaxy' to describe the spontaneous market order that emerges and compares it to the order found in language. He prefers this term to 'economy' because the latter implies some overarching purpose, which determines the ends to which resources are allocated; for Hayek (1973) the abiding feature of the market economy is that there are no such ends. Individuals may have their own purposes and objectives in their trading activities, but these are reconciled within the framework of the market. Each individual seeks his or her own ends within the opportunities that the market offers.

Whether the market and its outcomes are compatible with a Christian understanding of flourishing is hard to generalize. As Biggar observes, the biblical account identifies the purpose of the created order and the economic role of humankind as seeking the flourishing of humanity as a whole. The doctrine of the fall fits awkwardly with the assumption of guaranteed social harmony of the market described by Hayek. The Christian concept of economic justice requires more than just contracting in markets: it focuses attention on both the processes and outcomes of market interactions. Processes are important because a crude consequentialist ethic, so common in the pragmatic expressions of economics, emphasizes ends far more than means. In an example to be taken up presently, a market for adoptive babies could provide some people with children who are struggling to have them, but it comes at a cost of valuing persons in an entirely commercial way. Outcomes are important because markets are a means to the end of satisfying the wants of people. The conclusion may be that market freedoms definitely give rise to a market order but, given the wants of people in a fallen world, whether it is always the *best* order for human beings (as indicated by Christian anthropology) needs further consideration (Hay 1989).

### **Some Specific Market Maladies**

Three features of the market order are deleterious, according to a Christian understanding of flourishing. First, a well-understood problem in mainstream economics is that the existence of so-called externalities (unintended knock-on effects in market interactions) like pollution render the information transmitted by market prices misleading, leading to more pollution than is socially desirable. Not that this is without some remedy - there is a large area of government involvement in the economy designed to deal with externalities, using such policy tools as penalties, taxes and subsidies. Some of the best contributions to human flourishing that the discipline of economics makes is in these areas. Developing markets for 'rights to pollute' is a prime example of a helpful social convention, developed by economists to limit pollution to its most necessary sources.

The second concerns the scope of market activities. From around the 1980s a vision of economics advocated by the so-called Chicago School has sought to bring market thinking and new markets themselves to bear on an ever-widening set of social interactions. For example, some members of the Chicago School advocate a market for adoptive babies (Landes

and Posner 1978). The moral issue here is 'alienability', a legal term meaning that the thing which bears that designation is separable from a person: one can sell one's computer because it is alienable, but one can't (for now) sell children. Menzies (2021) argues that the sexual revolution has taken sexual partners from a kind of inalienability and placed them in the category of 'alienable' things.

Third, this ever-widening use of markets may have the effect on society of an over-use of market values (especially given the increasingly contested nature of other sources of value) and an over-use of consequentialist ethics, expressed as a preference for cost-benefit analysis in all situations. This has been particularly damaging as the ethics of the sexual revolution have taken on a more and more 'contractual' flavour (Menzies 2021). It has also led to a decline in trustworthiness in the financial sector (Menzies et al. 2019), contributing to several financial crises (Jensen, 2009).

Perhaps the most destructive effect of these market values comes via wages. This impact is important for non-paid work, or other pursuits so central to human flourishing. A feature of economic growth is that the average person, surrounded by an ever-increasing stock of knowledge and capital, becomes more and more productive over time. This implies a rise in wage rates in the market economy, and it can lead to a starving of time for family, the environment (think how time-consuming repairing old items, and recycling, can be) and church/community activities. While it is always possible to ignore market valuations, many people cannot resist undersupplying the goods and services which need their non-market time.

## Order and Disorder

Markets are a feature of human society for which thanks to God is due. Their ability to organize so many of the goods that are necessary for both survival and flourishing is their strongest recommendation. This puts them in a genus of many other blessings that have a kind of 'engineering' quality to them – well-managed water and sewerage systems, toilets, and roads, to name a few. But they are also a wrong solution to a post-Fall problem of disordered desires and inappropriate values. Some things, like beautiful living spaces or clean housing for poor people, are under-valued. And markets exist for intrinsically evil things. Leaving aside the goods themselves, a 'market mindset' can so easily creep into other areas of society, like relationships, in the absence of both godly order and values. Markets can be regulated, defining a ministry for Christians and others of goodwill in government, and their more morally dubious offerings can be declined, most of the time, limiting their malevolent role. But markets providing morally good things can be celebrated, defining a ministry for Christians and other of goodwill to do good by doing business. For all the benefits of markets, 'caveat emptor' ("let the buyer beware") is not just good advice for consumers, but for the 'purchasers' of a certain vision of economics that has no narrative of the Fall, or a bad choices in a tragic world.

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## References and Further Reading

Griffiths, Brian (1982), *Morality and the Market*, Hodder, Ecclesia Books, London.

Griffiths, Brian (1984), *The Creation of Wealth: A Christian's Case for Capitalism*, Hodder and Stoughton, London.

Brian Griffiths is a Christian writer sympathetic to Free Market Liberalism, and feels it is compatible with Christianity. He has taught at Regent College and was for a time a political advisor to Margaret Thatcher. He has also had roles at Goldman Sachs International.

Hay, Donald. (1989, 2004), *Economics Today*, Regent College Publishing, Vancouver. A critique of contemporary economics from the angle of both biblical theology and economic methodology. The meeting point is a series of Derivative Social Principles derived from theology to act as 'control beliefs' which impact on what is Christianly permissible in both policy and theory-building

Hayek, Friedrich (1973), *Law Legislation and Liberty*, (1) 'Rules and Order'. Routledge and Kegan Paul, London. A classic, though difficult, sample of Hayek's thought.

Jensen, Michael C, (2009) "Integrity: Without it Nothing Works," *Rotman Magazine: The Magazine of the Rotman School of Management*, 2009, pp. 16–20. An article written by a former advocate of profit-maximization as the sole goal for a firm. In this article, and elsewhere, he now advocates for truth-telling and trustworthiness as core underpinnings of economic activity.

Landes, E. M., and R. A. Posner, (1978), 'The Economics of the Baby Shortage', *The Journal of Legal Studies*, 7(2), June, 323-348. A provocative call for a free market for babies – an example of the ambition of the Chicago school to take economic principles into all aspects of social life, what is pejoratively called 'neo-liberalism'.

Menzies, Gordon. (2021), *Western Fundamentalism*, Greenhills, Sydney. A re-interpretation of the sexual revolution as an over-reach of market thinking into the romantic relationships, and a Christian critique of freedom as conceived in contemporary Western culture. Western freedom is 'freedom from' all restraints with no 'freedom for' agreement on human flourishing. Christian freedom is freedom from sin and freedom for adoption into the family of God.

Menzies, Gordon., Hay, D., Simpson, T. and D. Vines (2019), 'Restoring Trust in Finance: From Principal Agent to Principled Agent', *Economic Record*, 1-13. Finance stands as a core economic activity, so the failure of capitalism to work well in banking in 2008 was not an instance of the misapplication of economics to non-commercial areas, but a testimony to the importance of trust more generally.

## End Notes

- [1] As an academic economist, I can only barter for potatoes if I can locate a supplier who is in need of economic consultancy or instruction in economic analysis. The difficulties of a barter economy are elegantly overcome in a market economy: I can sell my economic expertise to some institution or person that requires it, and be paid in money, which I can then use to purchase potatoes.
- [2] There is an extensive literature which explores the question (which goes back to Adam Smith) of whether markets promote the virtues and virtuous behaviours, or undermine them.

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